

November 2006

GLOBAL WAR ON TERRORISM

Fiscal Year 2006
Obligation Rates Are
Within Funding Levels
and Significant
Multiyear
Procurement Funds
Will Likely Remain
Available for Use in
Fiscal Year 2007

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Why GAO Did This Study

Because of broad congressional interest, GAO is examining the costs of military operations in support of the Global War on Terrorism (GWOT) under the Comptroller General's authority to conduct evaluations on his own initiative. In September 2005, GAO reported the Department of Defense (DOD) cannot ensure reported GWOT obligations are complete, reliable, and accurate, and recommended improvements. In this report, GAO (1) compared supplemental and annual appropriations identified for GWOT in fiscal year 2006 to the military services' reported obligations as of June 2006 and their cost projections for the remainder of the fiscal year, and (2) examined DOD's efforts to improve the reliability of GWOT obligation data.

For this engagement, GAO analyzed fiscal year 2006 GWOT related appropriations and reported obligations, and DOD's corrective actions.

What GAO Recommends

Because significant multiyear procurement funds from fiscal year 2006 will likely remain available, GAO suggests Congress require DOD provide year-end data on fund availability and plans for additional funds received or requested. DOD disagreed, noting, among other things, it had already justified its needs. To ensure appropriate transparency, GAO continues to believe Congress needs updated data on DOD's plans.

www.gao.gov/cgi-bin/getrpt?GAO-07-76.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sharon Pickup at (202) 512-9619 or pickups@gao.gov.

GLOBAL WAR ON TERRORISM

Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007

What GAO Found

As of June 2006, which represents 9 months (75 percent) of fiscal year 2006, the military services have reported obligating about \$51.6 billion (55 percent) of the \$93.3 billion they received for GWOT in supplemental and annual appropriations for military personnel, operation and maintenance, and procurement. Our analysis of reported obligations and the military services' forecasts of their likely costs for fiscal year 2006 suggest that the rates of obligation for military personnel and operation and maintenance are within fiscal year 2006 GWOT funding levels and significant amounts of multiyear procurement funds will likely remain available for use in fiscal year 2007. The rates of obligation for military personnel are within funding levels for all military services except the Army, which plans to transfer about \$591 million in funds from other appropriations accounts to cover its military personnel obligations. The rates of obligation for operation and maintenance are within funding levels for all military services. As of June, the military services reported obligating about 85 percent of military personnel funds and 60 percent of operation and maintenance funds. For various reasons, most notably being that supplemental funds were not appropriated until June 2006, the military services do not expect to obligate a large portion of procurement funds, which generally are available for multiple years, and therefore these funds will remain available in fiscal year 2007. The military services received about 32 percent (\$6.8 billion) of procurement funding in annual appropriations and 68 percent (\$14.7 billion) in the supplemental appropriation. As of June, the military services reported obligating about 68 percent of the procurement funds received in the annual appropriation.

DOD and the military services have taken specific steps intended to improve the accuracy and reliability of their reported GWOT obligation data. Some problems remain with transparency over certain costs and inaccuracies in reported obligations. In response to GAO's prior recommendations, DOD now requires components to perform a monthly variance analysis to identify and explain significant changes in obligations and to attest to the accuracy of monthly obligation reports, and affirm it provides a fair representation of ongoing activities. Because these efforts are in the early stages of implementation, GAO has not fully evaluated their impact. Existing cost reporting procedures limit transparency of certain obligations because DOD continues to report large amounts in miscellaneous "other" categories. Also, DOD's cost reports for fiscal year 2005 understated total GWOT obligations for that year because they did not initially include about \$1.1 billion in obligations tied to the training and equipping of Afghan and Iraqi security forces. Without transparent and accurate cost reporting, Congress and DOD will continue to be unable to reliably know how much the war is costing, examine details on how appropriated funds are being spent, or have historical data useful in considering future funding needs. On the basis of GAO's work, DOD updated its guidance on the reporting of obligations in miscellaneous "other" categories and revised its September 2005 cost-of-war report to more fully reflect past obligations.

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United States Government Accountability Office
Washington, DC 20548

November 13, 2006

Congressional Committees

Since the September 11, 2001, terrorist attacks, Congress has provided the Department of Defense (DOD) with about \$381 billion, as of June 2006, in supplemental and annual appropriations for military operations both in the United States and overseas in support of the Global War on Terrorism (GWOT).¹ DOD received about \$114.4 billion in appropriations for GWOT in fiscal year 2006, \$49 billion of which was received in its annual appropriation and \$65.4 billion of which came through a supplemental appropriation. The portion of annual appropriations for GWOT, also known as “Title IX” or “bridge” funding,² was provided to pay for ongoing military operations during the first part of the fiscal year. In June 2006, Congress passed a supplemental appropriation to provide funding for GWOT operations through the remainder of the fiscal year. Of the \$114.4 billion provided in fiscal year 2006, about \$93.3 billion was appropriated to the military services for military personnel, operation and maintenance, and procurement. The remaining funds provided, about \$21.1 billion, were for defensewide agencies; research, development, test, and evaluation; and military construction. In fiscal year 2006 through June, DOD reported total obligations of about \$63 billion for GWOT, including about \$54 billion for Operation Iraqi Freedom (OIF) and about \$9 billion for Operation Enduring Freedom (OEF).

DOD compiles and reports obligations³ incurred to support GWOT in a monthly *Supplemental and Cost of War Execution Report*. This document is used by senior DOD leadership, along with other information, in evaluating the costs of the war and formulating future budget requests to fund GWOT. The document identifies the monthly and cumulative

¹ For purposes of this report, GWOT refers to the ongoing military operations overseas.

² Title IX is the section of the annual defense appropriation that outlines emergency spending provisions for operations in support of GWOT.

³ According to Department of Defense *Financial Management Regulation*, 7000.14-R, vol. 1, Definitions, p. xvii (December 2001), obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made by federal agencies during a given period that will require payments during the same or a future period.

reported incremental GWOT obligations. DOD reports these obligations by appropriation, contingency operation,⁴ and military service or defense agency. According to Volume 12, Chapter 23 of the DOD *Financial Management Regulation*, the monthly cost reports are typically compiled in the 45 days after the end of the reporting month in which the obligations are incurred.⁵ DOD has prepared monthly reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.

We have conducted a series of reviews under the Comptroller General's authority examining the reported obligations and funding for military operations in support of GWOT. In July 2004, we issued a report stating that large amounts of DOD's obligations were being reported in miscellaneous "other" categories, which provided little insight into how those funds had been spent.⁶ In September 2005, we issued a report identifying numerous reliability issues with DOD's reported GWOT obligation data, which make it difficult for DOD and Congress to know reliably how much the war is costing, examine details on how appropriated funding is being spent, or have historical data useful in considering future funding needs.⁷ Over the years, we have made a series of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's GWOT obligation data, including recommendations that DOD (1) revise the cost reporting guidance so that large amounts of reported obligations are not shown in "miscellaneous" categories, and (2) take steps to ensure that reported GWOT obligations are reliable. In response, the Department has implemented many of our previous recommendations.

⁴ DOD defines contingency operations to include small, medium, and large-scale campaign-level military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.

⁵ Volume 12, Chapter 23 of DOD's *Financial Management Regulation*, 7000.14R generally establishes financial policy and procedures related to DOD contingency operations. Volume 6A, Chapter 2 and Volume 3, Chapter 8 of the DOD *Financial Management Regulation* also include provisions to ensure the accuracy of cost reporting.

⁶ GAO, *Military Operations: Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DOD to Shift Funds from Other Uses*, [GAO-04-915](#) (Washington, D.C.: July 21, 2004).

⁷ GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, [GAO-05-882](#) (Washington, D.C.: Sept. 21, 2005).

To assist Congress in its oversight role and to help it consider future GWOT funding needs, we prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative. In it we assess the outlook of fiscal year 2006 reported GWOT obligations and funding based on data through June 2006, and determine DOD's progress in addressing problems we identified regarding the reliability of DOD's reported GWOT obligation data. We (1) compared supplemental and annual appropriations identified for GWOT in fiscal year 2006 to the military services' reported obligations as of June 2006 and their cost projections for the remainder of the fiscal year, and (2) examined the extent to which DOD has taken steps to improve its cost reporting procedures and the reliability of its reported GWOT obligation data.

To compare the military services' reported obligations against available funding appropriated for GWOT in fiscal year 2006, we analyzed copies of DOD's monthly *Supplemental and Cost of War Execution Report* for October 2005 through June 2006 and reviewed applicable supplemental and annual appropriations and DOD reports on the transfer of funds between various appropriation accounts. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller)⁸ and the Army, Navy, Marine Corps, and Air Force to determine if their projected GWOT obligations are within fiscal year 2006 funding levels. As previously reported, we found the data in DOD's monthly *Supplemental and Cost of War Execution Report* to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations. In addition, as recently as November 2005, DOD acknowledged that systemic weaknesses with its financial management systems and business operations continue to impair its financial information. To examine the steps DOD has taken to improve the reliability of its reported GWOT obligations, we interviewed key officials from the DOD Comptroller and the Army, Navy, Marine Corps, and Air Force to determine the extent to which our previous recommendations have been implemented. We also reviewed any new guidance issued by DOD regarding the analysis and reporting of obligations for contingencies. In addition, we performed limited testing of the reported GWOT obligations for military personnel and discussed with DOD and military service financial managers their specific processes and procedures used to

⁸ For purposes of this report, we refer to the Office of the Under Secretary of Defense (Comptroller) as the DOD Comptroller.

ensure that reported GWOT obligation data provided by the subordinate commands are accurate and reliable.

We performed our work from January 2006 through September 2006 in accordance with generally accepted government auditing standards.

Results in Brief

As of June 2006, which represents 9 months (75 percent) of fiscal year 2006, the military services reported obligating about \$51.6 billion (55 percent) of the \$93.3 billion they received for GWOT in supplemental and annual appropriations for military personnel, operation and maintenance, and procurement. Our analysis of reported obligations and the military services' forecasts of their likely costs for fiscal year 2006 suggest that the rates of obligation for military personnel and operation and maintenance are within fiscal year 2006 GWOT funding levels and significant amounts of multiyear procurement funds will likely remain available for use in fiscal year 2007. As of June, the military services reported obligating about 85 percent of military personnel funds and 60 percent of operation and maintenance funds. Fiscal year 2006 rates of obligation for military personnel for GWOT are within GWOT funding levels for all military services except the Army. According to military service officials, the Army experienced higher than anticipated obligations for military personnel due primarily to increased recruitment and retention incentives offered to assist in manning the force during GWOT and increased death gratuity benefits provided in the National Defense Authorization Act for fiscal year 2006. The Army expects to be able to cover these obligations by transferring about \$591 million in funds from other appropriations accounts into the military personnel account under authority granted by Congress.⁹ In addition, the military services' rates of obligation for operation and maintenance for GWOT are within fiscal year 2006 GWOT funding levels for all military services. According to military service officials, operation and maintenance obligations in June 2006 were lower than anticipated due to reduced spending relating to contracts and certain operations bills. For example, the Army reduced spending on contracts for

⁹ DOD uses "transfer authority" to shift funds between appropriation accounts, for example, between military personnel and operation and maintenance. Transfer authority is granted by Congress to DOD usually pursuant to specific provisions in authorization or appropriation acts. The ability to shift funds within a specific appropriation account, like operation and maintenance, is referred to as "reprogramming." In general, DOD does not need statutory authority to reprogram funds within an account as long as the funds to be spent would be used for the same general purpose of the appropriation and the reprogramming does not violate any other specific statutory requirements or limitations.

selected base closures and restructuring in Iraq because of the security environment and uncertainty regarding receipt of supplemental funding. Furthermore, for fiscal year 2006, GWOT-related procurement funds are expected to remain largely unobligated by the end of the fiscal year, and will remain available in fiscal year 2007. Procurement funds appropriated in one fiscal year may remain available in future fiscal years because they are available for obligation over multiple years. For fiscal year 2006, the military services received about 32 percent (\$6.8 billion) of procurement funding in Title IX as part of the annual appropriation and 68 percent (\$14.7 billion) in the supplemental appropriation. As of June, the military services have spent about 68 percent of the procurement funds received through Title IX. Given the time required to negotiate new procurement contracts, military service officials stated that they were prevented from obligating much of their procurement funds received in the supplemental appropriation prior to the end of the fiscal year and therefore expect reported monthly procurement obligations to be higher in the last month of fiscal year 2006 and in early fiscal year 2007. However, given that at the time of this report DOD had only reported obligations through June 2006, we were unable to determine how much funding would remain at the end of the fiscal year. Since it is likely that much of the procurement funding from fiscal year 2006 will remain available in fiscal year 2007, knowledge of what those available amounts are and how DOD plans to spend them would assist congressional decision makers in determining DOD's future funding needs.

DOD and the military services have taken specific steps intended to improve the accuracy and reliability of their reported GWOT obligation data. Some problems remain with transparency over certain costs and inaccuracies in reported obligations. In response to our previous recommendation to improve the accuracy and reliability of reported GWOT obligation data, in August 2005 the DOD Comptroller issued guidance¹⁰ to the secretaries of the military services and the directors of the defense agencies to help DOD components¹¹ more accurately and consistently report obligations for contingencies such as GWOT. This guidance directed DOD components to perform a monthly variance analysis to review and validate that their reported obligations are accurate and provide a fair representation of ongoing activities, and to include an

¹⁰ DOD Comptroller, Memorandum: *Analysis of Contingency Operation Costs* (Aug. 30, 2005).

¹¹ "Components" refers to all military services and DOD agencies.

explanation of variances that exceed a certain threshold. The DOD Comptroller also issued guidance directing submitting DOD components to attest to the accuracy of their monthly obligation data contained in DOD's *Supplemental and Cost of War Execution Report* and affirm that the report provides a fair representation of ongoing activities. Because these efforts are in the early stages of implementation, we have not fully evaluated their impact. The Army also made improvements to the accuracy of its imminent danger pay reporting shortly after the issuance of our September 2005 report and DOD's guidance regarding the analysis of contingency operations costs. In addition to these efforts, further improvements are needed in the cost reporting process. For example, existing cost reporting procedures limit the visibility over or transparency of certain obligations because DOD continues to report large amounts of obligations in miscellaneous "other" categories. For example, in fiscal year 2005, about \$12.8 billion (or 26 percent of all obligations) reported in the operation and maintenance account were in "other supplies and equipment" and "other services and miscellaneous contracts." This trend has continued in fiscal year 2006. Little has been done DOD-wide to further refine reporting of these miscellaneous obligations in DOD's cost-of-war reports, although the Army has taken some steps at the headquarters level to reduce the amounts reported in these "other" categories by revising its reporting methodology to redirect some of the obligations into reporting categories that more closely describe the obligations. Moreover, while the components have taken steps to improve their reporting of GWOT obligations, as required by DOD's financial management regulation, inaccuracies in DOD's reported obligations continue to exist. For example, we found that DOD's cost-of-war reports understated total GWOT obligations because they did not include about \$1.1 billion in obligations for fiscal year 2005 tied to the training and equipping of Afghan and Iraqi security forces. According to DOD officials, because the funds for these purposes became available later in the fiscal year, DOD did not have a reporting format in the cost-of-war reports for these obligations and planned to amend its September 2005 cost-of-war report at some point to reflect them. Without transparent and accurate reporting of GWOT obligations, the public, Congress, and DOD will continue to be unable to reliably know how much the war is costing, examine details on how appropriated funds are being spent, or have historical information useful in determining future funding needs.

In a draft of this report, we made two recommendations to DOD to improve the transparency and accuracy of its cost reporting. DOD agreed with one recommendation to revise Volume 12, Chapter 23 of the DOD *Financial Management Regulation* to provide additional subcategories

for “other supplies and equipment,” “other services and miscellaneous contracts,” and “other military personnel” to provide further breakdown of reported obligations in miscellaneous categories and, in fact, in October 2006, issued a revision to Chapter 23 to provide such breakdowns. We believe this meets the intent of our recommendation and removed the recommendation from the final report. DOD disagreed with the basis of a second recommendation to amend the September 2005 version of DOD’s *Supplemental and Cost of War Execution Report* to include the unreported Afghan and Iraqi security forces fund obligations for fiscal year 2005. In its comments, DOD stated that this information was provided to Congress in another report and therefore did not agree with our observation that the costs were “understated”. DOD also stated it had revised its September 2005 cost-of-war report to reflect these obligations. However, since DOD has already issued and provided us with an amended September 2005 cost-of-war report including the about \$1.1 billion in fiscal year 2005 obligations, we believe this fulfills the intent of our recommendation and removed the recommendation from the final report. DOD’s comments and our evaluation of them can be found at the end of this report. DOD’s comments are reprinted in appendix III.

In addition, since it is likely significant multiyear procurement funding from fiscal year 2006 will remain available in fiscal year 2007, we have included a matter for congressional consideration. Congress should consider requiring DOD to provide information on how much procurement funding remains available for obligation at the conclusion of the fiscal year and how the department intends to obligate this funding and any other procurement funding received or requested for GWOT in fiscal year 2007 and beyond. DOD also did not agree with our matter for congressional consideration, stating that it has plans for reconstituting forces deployed in the war on terror and that it is not reasonable to infer that these funds are available for other purposes. We do not believe that our report implies that any previously appropriated procurement funding is available for other purposes. On the contrary, we stated that significant multiyear funds will remain available at the end of fiscal year 2006 for procurement purposes. Given that DOD received more procurement funding with the enactment of the fiscal year 2007 defense appropriation and authorization bills and is expected to request more in a fiscal year 2007 supplemental appropriation, we believe it is important that Congress have a complete picture of all funding DOD has available for procurement purposes when considering future appropriations requests from DOD and have retained the matter.

Background

After the terrorist attacks of September 11, 2001, the President announced a Global War on Terrorism requiring the collective instruments of the entire federal government to counter the threat of terrorism. Military operations to combat terrorism began with Operation Noble Eagle, which is aimed at defending the United States homeland against terrorist attacks, and Operation Enduring Freedom (OEF), which takes place principally in and around Afghanistan, but also covers additional operations in the Horn of Africa, the Philippines, and elsewhere.¹² In 2003, the United States began Operation Iraqi Freedom (OIF), which takes place principally in Iraq. These operations involve a wide variety of activities such as combating insurgents, training the military forces of other nations, and conducting small-scale reconstruction and humanitarian relief projects. DOD and the military services are responsible for carrying out these operations.

To fund these operations in fiscal year 2006, Congress provided DOD with funding for GWOT as part of its annual appropriations, known as “Title IX” or “bridge” funding, and through supplemental appropriations. This funding totaled about \$114.4 billion, of which about \$93.3 billion went to the military services’ three major appropriations accounts: military personnel, operation and maintenance, and procurement. The remaining funds provided, about \$21.1 billion, were for defensewide agencies; research, development, test and evaluation; and military construction. As shown in table 1, the military services received about \$15.9 billion for military personnel, about \$55.9 billion for operation and maintenance, and about \$21.5 billion for procurement.

¹² From fiscal year 2001 through fiscal year 2004, military operations in defense of the homeland were funded through supplemental appropriations. Since fiscal year 2005, DOD has funded these operations through its regular annual budget.

Table 1: Fiscal Year 2006 Appropriations Identified for GWOT for the Military Services

Dollars in billions					
	Army	Navy	Marine Corps	Air Force	Totals
Military personnel					
Title IX	\$ 5.1	\$ 0.1	\$ 0.5	\$ 0.5	
Supplemental	6.8	0.9	0.8	1.2	
Total	11.9	1.0	1.3	1.7	\$ 15.9
Operation and maintenance					
Title IX	21.6	1.8	1.9	2.5	
Supplemental	18.0	2.8	1.7	5.6	
Total	39.6	4.6	3.6	8.1	55.9
Procurement					
Title IX	4.6	0.3	1.7	0.1	
Supplemental	9.0	1.0	2.6	2.2	
Total	13.6	1.3	4.3	2.3	21.5
Grand total					93.3

Source: GAO analysis of Pub. L. No. 109-148 (2005) and Pub. L. No. 109-234 (2006).

Note: Totals may not compare to those in the report due to rounding.

In addition to the funds appropriated to the military services, since 2003 Congress has also appropriated funds to the Iraqi Freedom Fund (IFF), a special account providing funds available for 2 fiscal years and that can be transferred to the military services' appropriations accounts. DOD may transfer funds from the IFF to other accounts to cover additional expenses for ongoing military operations in Iraq, operations authorized by the Authorization for Use of Military Force,¹³ and other operations and related activities in support of GWOT. In fiscal year 2006 through June, DOD had transferred about \$3.7 billion of the funds originally appropriated to the IFF into the military services' appropriations accounts, most of which were to cover the expenses for classified programs and to defeat improvised explosive devices.

For fiscal year 2006 through June, DOD has reported total obligations of about \$63 billion for GWOT, including about \$54 billion for OIF and about

¹³ Pub. L. No. 107-40 (Sept. 18, 2001).

\$9 billion for OEF. DOD began the fiscal year operating under a continuing resolution¹⁴ and legislation providing the \$49 billion bridge funding was not passed until December 2005, causing the services to curtail spending early in the fiscal year. Additionally, military service officials stated they had anticipated receiving supplemental appropriations in May, but since this funding was not appropriated until June, the military services took steps to reduce costs until supplemental funds were received, including postponing payment of bills and delaying certain maintenance activities. Appendix II contains an explanation of DOD's process for reporting obligations.

Between September 2001 and June 2006, Congress provided DOD with about \$381 billion in supplemental and annual appropriations for military operations in support of GWOT. DOD reported total obligations¹⁵ of about \$287 billion for overseas GWOT-related activities from September 2001 through June 2006, including about \$227 billion for operations in Iraq and about \$60 billion for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere. In addition to overseas obligations, DOD reported about \$27.7 billion in obligations related to defense of the U.S. homeland from 2001 through June 2006.

¹⁴ A continuing resolution is a joint resolution enacted by Congress, providing budget authority for federal agencies and programs to continue in operation until the regular appropriations acts are enacted.

¹⁵ DOD's reported obligations do not include obligations for classified activities, which are not captured in DOD's monthly *Supplemental and Cost of War Execution Report*. However, on the basis of conference reports for various supplemental appropriations acts, the Congressional Budget Office estimates those costs are at least \$25 billion.

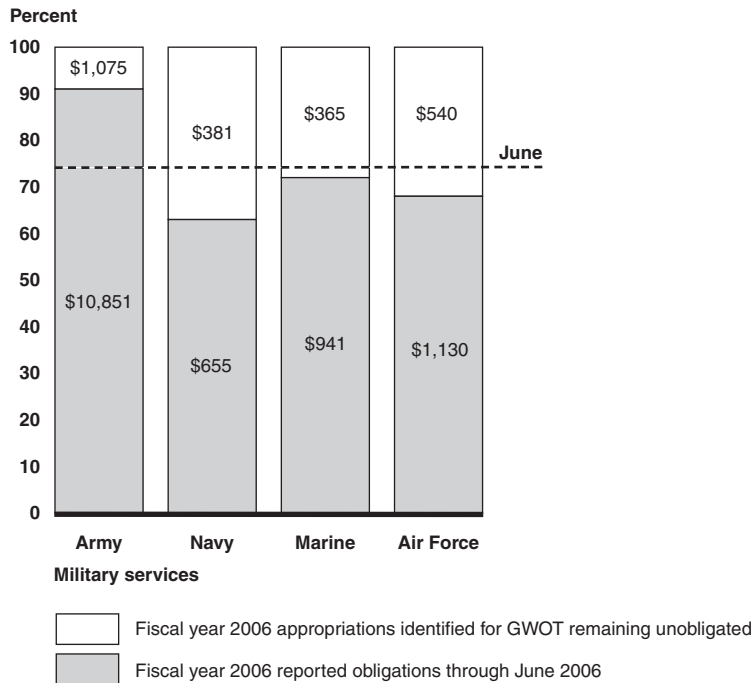
Fiscal Year 2006 Rates of Obligations Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007

Our analysis of reported obligations and the military services' forecasts of their likely costs for fiscal year 2006 suggest that the rates of obligation for military personnel and operation and maintenance are within fiscal year 2006 GWOT funding levels and significant amounts of multiyear procurement funds will likely remain available for use in fiscal year 2007. As of June, the military services reported obligating about 85 percent of military personnel funds and 60 percent of operation and maintenance funds. Fiscal year 2006 rates of obligation for military personnel for GWOT are within GWOT funding levels for all military services except the Army, due primarily to increased recruitment and retention incentives offered by the Army to assist in manning the force during GWOT and increased death gratuity benefits provided in the National Defense Authorization Act for fiscal year 2006. The military services' rates of obligation for operation and maintenance for GWOT are within fiscal year 2006 GWOT funding levels for all military services, although they curtailed spending in multiple categories due to uncertainty relating to receipt of supplemental funding. For fiscal year 2006, the GWOT procurement funds appropriated to the military services are largely expected to remain unobligated and will remain available in fiscal year 2007. Procurement funds may remain available in future fiscal years because they are available for obligation over multiple years.

Fiscal Year 2006 Rates of Obligation for Military Personnel for GWOT Are Within GWOT Funding Levels for All Military Services Except the Army

Fiscal year 2006 rates of obligation for military personnel for GWOT are within GWOT funding levels for all military services except the Army. The Army experienced higher than anticipated obligations for military personnel due primarily to increased recruitment and retention incentives offered to assist in manning the force during GWOT and increased death gratuity benefits provided in the National Defense Authorization Act for fiscal year 2006. To avoid a problem in the last quarter of the fiscal year, the Army included a transfer action in the so-called fiscal year 2006 omnibus reprogramming request DOD submitted to Congress. This action transfers about \$591 million in funds from various appropriation accounts to the Army's military personnel account and fund the Army's remaining military personnel needs for fiscal year 2006. As figure 1 shows, after 9 months, or 75 percent of the fiscal year, the Army reported obligations of 91 percent, the Navy 63 percent, the Marine Corps 72 percent, and Air Force 68 percent of available GWOT appropriations.

Figure 1: Military Services' Fiscal Year 2006 Reported GWOT Military Personnel Obligations of Appropriations Identified for GWOT through June 2006



Source: GAO analysis of DOD data.

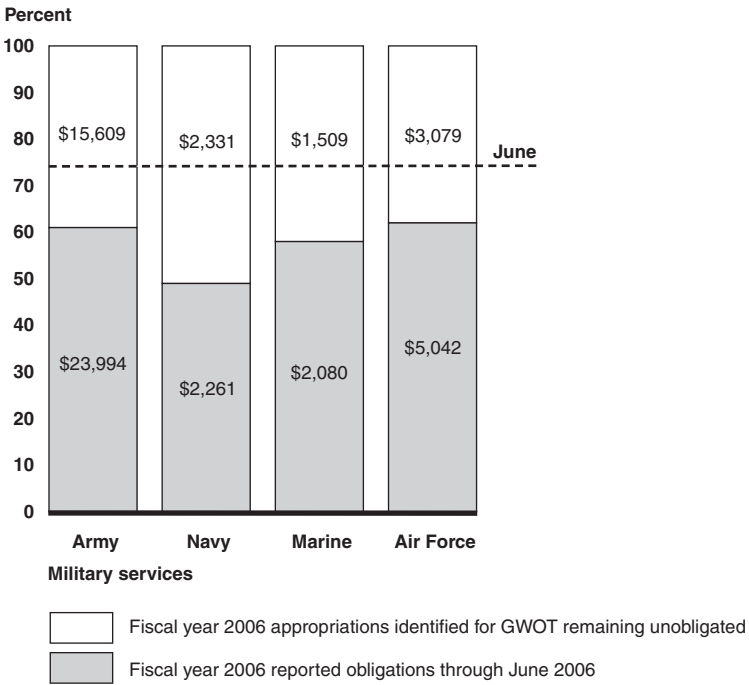
Notes: June 2006 represents 75 percent of the fiscal year and is an indication of where DOD would be if it had obligated its available funding equally each month throughout the fiscal year. Reported obligations include those from both the active and reserve components. We have previously assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations.

Fiscal Year 2006 Rates of Obligation for Operation and Maintenance for GWOT Are Within Fiscal Year 2006 GWOT Funding Levels for All Military Services

The military services' rates of obligation for operation and maintenance for GWOT are within fiscal year 2006 GWOT funding levels for all military services. As shown in figure 2, after 9 months, or 75 percent of the fiscal year, the Army reported obligations of 61 percent, the Navy 49 percent, the Marine Corps 58 percent, and the Air Force 62 percent of available GWOT appropriations. The military services' reported GWOT operation and maintenance obligations are less than anticipated because they curtailed spending at the beginning of the year due to uncertainty relating to the receipt of supplemental funding. For example, sustainment contracts in Iraq, Afghanistan, and Kuwait were scaled back due to the unpredictability of fiscal year 2006 funding. In addition, Army officials stated that contracts for selected base closures and restructuring in Iraq have been scaled back due to the security environment. As previously stated, the Navy is

reporting lower than anticipated obligations for operation and maintenance because many Navy components took steps to reduce spending early in the fiscal year. For example, Navy officials stated that they withheld payment of certain operations bills, such as transportation, and deferred obligations for depot maintenance to stay within available funding as the military services awaited receipt of supplemental funding.

Figure 2: Military Services' Fiscal Year 2006 Reported GWOT Operation and Maintenance Obligations of Appropriations Identified for GWOT through June 2006



Source: GAO analysis of DOD data.

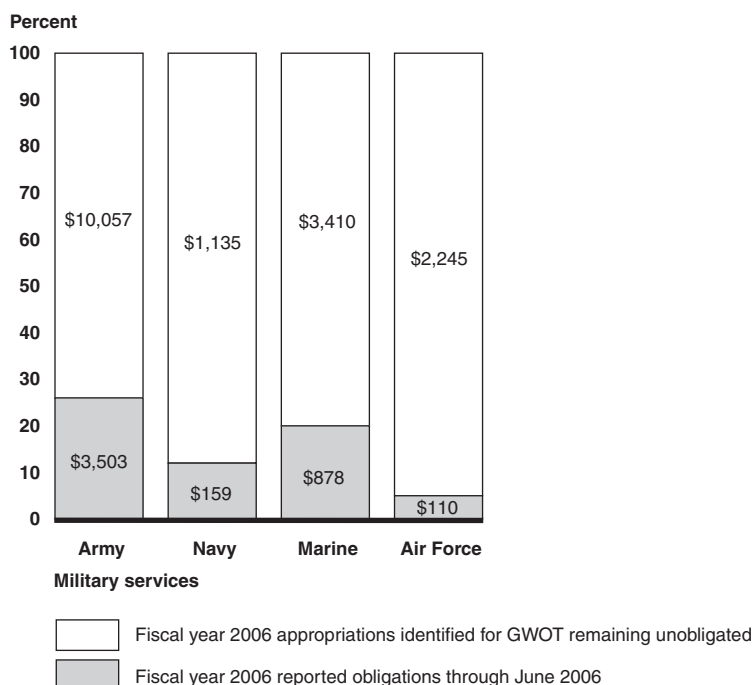
Notes: June 2006 represents 75 percent of the fiscal year and is an indication of where DOD would be if it had obligated its available funding equally each month throughout the fiscal year. Reported obligations include those from both the active and reserve components. We have previously assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations.

GWOT Appropriations for Procurement in Fiscal Year 2006 Will Largely Remain Unobligated and Remain Available for Future Fiscal Years

For fiscal year 2006, the GWOT procurement funds appropriated to the military services are largely expected to remain unobligated and will remain available in future fiscal years. Procurement funds can remain available for future fiscal years because they generally are available for obligation over multiple years. For fiscal year 2006, the military services received about 32 percent (\$6.8 billion) of procurement funding in Title IX as part of the annual appropriation and 68 percent (\$14.7 billion) in the supplemental appropriation. As of June the military services have spent about 68 percent of the procurement funds received through Title IX.

We project that DOD's procurement obligations will remain low in fiscal year 2006 for two reasons. First, the majority of the fiscal year 2006 procurement appropriations were provided in the GWOT supplemental appropriation, which the military services did not receive until June 2006. Second, officials stated that supplemental funds had been expected in May 2006 but were not received until June 2006 and the time required to negotiate new procurement contracts may prevent the military services from obligating much of their procurement funds prior to the end of fiscal year 2006. As a result, significant procurement funds will remain available in fiscal year 2007. Figure 3 shows, the percentage of the total available GWOT procurement appropriations obligated through June 2006. According to military service officials, they expect higher procurement obligations late in fiscal year 2006 and into early fiscal year 2007. At the time of this report, DOD had only reported obligations through June 2006; therefore, we were unable to determine how much funding would remain at the end of the fiscal year. DOD received more procurement funding with the enactment of the fiscal year 2007 defense appropriation bill. Since it is likely that much of the procurement funding from fiscal year 2006 will remain available in fiscal year 2007, knowledge of what those available amounts are and how DOD plans to spend them would assist congressional decision makers in determining DOD's future funding needs.

Figure 3: Military Services' Fiscal Year 2006 Reported GWOT Procurement Obligations of Appropriations Identified for GWOT through June 2006



Source: GAO analysis of DOD data.

Notes: Reported obligations include those from both the active and reserve components. We have previously assessed the reliability of DOD's obligations data and found that while the data we report reflect the data used by DOD to advise Congress on the cost of the war, they may not accurately reflect the true dollar value of GWOT obligations.

DOD and the Military Services Have Taken Specific Steps Intended to Improve GWOT Cost Reporting Procedures and Data Reliability; Some Problems Remain

DOD and the military services have taken specific steps intended to improve the accuracy and reliability of their reported GWOT obligation data. Some problems remain with transparency over certain costs and inaccuracies in reported obligations. The DOD Comptroller has established new monthly variance reporting and affirmation requirements, and the military services have improved the accuracy of some of their reported obligations. In addition to these efforts, further improvements are needed in the cost reporting process. For example, existing cost reporting procedures do not provide transparency and visibility over certain GWOT obligations because DOD and the military services continue to report large obligations in miscellaneous "other" categories that provide little insight on how those funds have been spent. We also continue to find inaccuracies in the overall reported GWOT obligations due to unreported obligations related to the training and equipping of Afghan and Iraqi security forces. Until DOD takes steps to address these problems, it will

continue to be difficult for Congress and DOD to reliably know how much the war is costing, examine details on how appropriated funds are being spent, or have historical information useful to determine future funding needs.

DOD and the Military Services Have Established New Monthly Variance Reporting and Affirmation Requirements, and Have Improved the Accuracy of Some Reported Obligation Data

The DOD Comptroller has established new monthly variance reporting and affirmation requirements intended to improve GWOT cost reporting procedures, and the military services have improved the accuracy of some reported obligations. Specifically, in response to our previous recommendation to improve the accuracy and reliability of reported GWOT obligation data, the DOD Comptroller, in August 2005, issued guidance¹⁶ to the secretaries of the military services and the directors of the defense agencies to help DOD components more accurately and consistently report obligations for contingencies such as GWOT. This guidance directed DOD components to perform a monthly variance analysis to review and validate that their reported obligations are accurate and provide a fair representation of ongoing activities, and to include an explanation of variances that exceed a certain threshold.¹⁷ Thresholds triggering the variance analysis review differ by cost category.

DOD components were directed to use, to the fullest extent possible, actual obligation data as captured in the official accounting systems. When obligation data were not available in the accounting system, then an auditable alternative methodology was to be established providing explanation of all sources used to capture the data other than official accounting systems. For example, when using alternate data sources, DOD's variance analysis guidance requires each DOD component to provide detail on the type or description of the cost, the cost category impacted, an explanation of why data are not available from the accounting system, a description of the criteria or methodology used to calculate costs, and the mechanism used to track these costs. Each of the military services directed its major and subordinate commands to complete the monthly variance analysis, and submit the analysis to the command level, where financial management officials are expected to review obligations data for discrepancies. In early fiscal year 2006, DOD

¹⁶ DOD Comptroller, Memorandum: *Analysis of Contingency Operation Costs* (Aug. 30, 2005).

¹⁷ The DOD components submit their monthly variance reports to the Defense Finance and Accounting Service along with their reported obligation data.

set up a task force under the leadership of the DOD Comptroller to develop and refine DOD's efforts to improve the reliability of its reported obligations, including the variance analyses. This task force includes representatives from each of the military services' financial management and comptroller offices, as well as representatives from Defense Finance and Accounting Service.

DOD began including the variance analyses with the November 2005 DOD *Supplemental and Cost of War Execution Report*. In reviewing the variance analysis submissions since then, we have noted improvements in both the variance analysis submissions as well as the explanations provided on the use of alternate data sources. Military service officials stated that the variance analysis highlighted several problems and allowed them to correct the mistakes before submitting their reports to the DOD Comptroller for inclusion in the monthly DOD *Supplemental and Cost of War Execution Report*. In June 2006, DOD issued revised guidance¹⁸ for analyzing obligations for contingency operations based on the experiences of the DOD components with the variance analysis over the last several months.

Because efforts to implement the variance analysis are still in the early stages, we have not fully evaluated the impact of this new initiative on cost reporting. However, in reviewing the June 2006 variance submission, we identified two examples of where additional explanation could be provided. For example, in reviewing the Air Force's June 2006 variance report for military personnel obligations—which includes imminent danger pay, hardship duty pay, and family separation pay—we found that the Air Force had used an alternative data source, but provided limited explanation as to the criteria and methodology it used to track these obligations. Our past work has shown significant problems with DOD's reported obligations data, in particular its military personnel obligations, including imminent danger pay. Upon discussion with Air Force officials, they recognized that their explanation could be expanded to provide further clarification. We also found problems with the explanations provided for variances in the Marine Corps' June 2006 operation and maintenance obligations for GWOT. For example, the Marine Corps reported that its obligations for transportation in support of OEF had decreased by 81 percent, due to the refinement of transportation

¹⁸ DOD Comptroller Memorandum: *Revised Instructions for Analysis of Contingency Operation Costs* (June 13, 2006).

obligations in previous months. However, no further explanation is provided as to what types of refinements were made and how these refinements resulted in reductions in obligations. Similarly, the Marine Corps Reserve reported that its obligations for personnel support for OIF had changed by 900 percent due to a realignment of expenses. However, no explanation is provided as to where the obligations were realigned and why the realignment was made. Marine Corps officials subsequently stated that the variance explanation for transportation was not fully addressed due to an administrative oversight and the variance explanation for personnel support was not provided because, in their view, the small obligations reported, totaling \$1000, which is associated with the variance, did not warrant explanation. Because the variance analysis process is relatively new, we are not making recommendations at this time, but will continue to monitor this process in the future.

Furthermore, to help ensure that the obligations for contingency operations being reported were as accurate as possible, DOD developed an affirmation process. In March 2006, the DOD Comptroller issued initial guidance¹⁹ directing submitting DOD components to attest to the accuracy of their monthly obligation data contained in DOD's *Supplemental and Cost of War Execution Report* and affirm that the report provides a fair representation of ongoing activities. The affirmation was to accompany the monthly GWOT cost report and would be provided to the Defense Finance and Accounting Service by the comptroller or financial manager of the associated DOD component. However, shortly thereafter, the DOD Comptroller instructed the military services to delay submission of their affirmation memos until revised guidance could be issued. Revised guidance was issued in late June 2006, to allow for further delegation of the affirmation authority. All other requirements for the affirmation were unchanged. Specifically, DOD's guidance now requires that each military service's Assistant Secretary for Financial Management & Comptroller, the Deputy, or the Director for Budget provide the affirmation. However, we note that it does not contain criteria or factors that could be considered during the review process. In discussions with military service officials, some military services are relying on the judgment of their major and subordinate commands that the costs are indeed accurate as a basis for their affirmation, while others have instituted additional management reviews of the reported costs. Because this affirmation process is new, we

¹⁹ DOD Comptroller Memorandum: *Accuracy of Contingency Operation and Disaster Relief Cost Reports* (Mar. 3, 2006).

are making no recommendations regarding the process at this time, but will continue to monitor this process in the future.

Finally, we found that the Army made improvements to the accuracy of its imminent danger pay reporting shortly after the issuance of our September 2005 report and DOD's guidance regarding the analysis of contingency operations costs. As part of our work last year, we conducted limited testing of military personnel obligations data and reported wide monthly swings in imminent danger pay with little correlation to the numbers of deployed personnel.²⁰ Reported imminent danger pay obligations for GWOT should correlate to the approximate number of deployed forces in eligible areas.²¹ In our September 2005 report we noted a reporting discrepancy for DOD's reported imminent danger pay in fiscal year 2004. The reported obligations suggested that more than 1 million personnel were deployed in support of OIF and OEF, while according to DOD only about 221,300 personnel from all the military services were deployed. DOD was able to identify the accounting error and provide a revised obligations figure. Our analysis of reported Army imminent danger pay for fiscal year 2006 through May 2006 shows that the accuracy of these data improved, with reduced monthly swings and closer correlation to the actual number of deployed personnel.

Cost Reporting Procedures Do Not Provide Visibility and Transparency over Certain Obligations

Existing cost reporting procedures do not provide visibility and transparency over certain obligations because DOD continues to obligate large amounts of funds in miscellaneous "other" categories that provide little insight on how those funds have been spent. For example, in fiscal year 2005, close to 26 percent of obligations reported in the operation and maintenance account were in "other supplies and equipment" and "other services and miscellaneous contracts."²² This trend has continued in fiscal year 2006. As shown in table 2, from fiscal year 2001 through June of fiscal year 2006, DOD has reported operation and maintenance obligations in the

²⁰ [GAO-05-882](#).

²¹ As of October 1, 2002, all military personnel—both Active and Reserve Component—in areas designated as eligible for imminent danger pay receive \$225 per month. Such areas include, but are not limited to, the countries of Iraq, Afghanistan, Kuwait, Qatar, Bahrain, and Saudi Arabia. The monthly amount is payable in full without being prorated or reduced, for each month, during any part of which a service member qualifies and regardless of the actual period of time served on active or inactive duty during that month.

²² The percentage of reported obligations in this category includes obligations for Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom.

cost reports of \$26.5 billion for “other services and miscellaneous contracts” and obligations of \$23.9 billion for “other supplies and equipment.” During this time frame, DOD has reported military personnel obligations of about \$15.7 billion for “other military personnel.”

Table 2: DOD’s Six Largest Obligation Categories from Fiscal Year 2001 through Fiscal Year 2006 (June)

Dollars in thousands			
Category	FY 2005	FY 2006 as of June	Total FY 2001 to June 2006
Reserve components called to active duty	\$8,398,240	\$6,033,225	\$37,809,078
Operation OPTEMPO (fuel, petroleum, oils, lubricants, and spare parts)	8,344,809	7,964,114	34,024,022
Facilities/base support	9,118,936	5,982,880	28,885,801
Other services/miscellaneous contracts	6,609,012	2,979,547	26,584,689
Other supplies & equipment	6,250,765	3,901,483	23,982,627
Other military personnel	2,541,957	3,792,359	15,775,832

Source: GAO’s analysis of DOD’s reported GWOT data.

Note: The reported obligations in this chart include obligations for Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom.

We have previously stated our concerns that while the miscellaneous “other” categories defined in DOD’s *Financial Management Regulation* provide a uniform framework for capturing obligations, they do not provide the specificity or transparency needed for Congress and others to understand clearly how funds appropriated for contingency operations are being used, particularly since these categories involve billions of dollars in reported obligations. We have reported for several years, and as recently as July 2004, that large amounts of reported obligations for GWOT are in miscellaneous “other” categories in both the operation and maintenance and the military personnel accounts.²³ For example, in our report on fiscal year 2003 funding²⁴ we pointed out that almost 35 percent of obligations reported in the operation and maintenance account were in “other supplies and equipment” and “other services and miscellaneous contracts.” We previously recommended that DOD revise its cost reporting guidance

²³ GAO, *Military Operations: Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DOD to Shift Funds from Other Uses*, [GAO-04-915](#) (Washington, D.C.: July 21, 2004).

²⁴ GAO, *Military Operations: Fiscal Year 2003 Funding and Reported Obligations in Support of the Global War on Terrorism*, [GAO-04-668](#) (Washington, D.C.: May 13, 2004).

so that the use of miscellaneous “other” categories is minimized when reporting obligations.

In response to our recommendations, in January 2005, DOD expanded the cost categories for contingency operations in the DOD *Financial Management Regulation* to include an additional category for military personnel obligations related to active component end strength. These obligations had previously been recorded in the “other military personnel” category. However, DOD did not refine reporting of the other miscellaneous obligations in DOD’s cost-of-war reports. On its own initiative, the Army has taken some steps to provide better transparency over the operation and maintenance obligations previously reported in the “other services and miscellaneous contracts” category. Specifically, it has revised its reporting methodology to redirect some of its contracting obligations into other reporting categories more directly tied to the contracted activity. For example, the Army is now reporting obligations for information technology contracts tied to DOD’s Projects and Contracting Office²⁵ under the command, control, communications, computers, and intelligence cost category. It has also begun reporting contract obligations associated with the special technical inspection and repair process at the Army’s Aviation and Missile Command under the reporting category for intermediate level maintenance. However, the Navy, Marine Corps, and Air Force have yet to take similar steps. On the basis of our work, in October 2006 DOD updated its guidance on the reporting of obligations in miscellaneous “other” categories to more fully reflect these obligations.

Inaccuracies in Reported GWOT Obligations Continue to Exist

We continue to find inaccuracies in the overall reported GWOT obligations. For example, DOD had not reported certain obligations tied to the training and equipping of Afghan and Iraqi security forces in fiscal year 2005. Based on our work, DOD has since taken corrective action. In September 2005, DOD issued an update to the DOD *Financial Management Regulation* governing contingency operations, adding an additional cost reporting category called “Other Support Costs,” in the

²⁵ In May 2004, the President signed National Security Presidential Directive 36, which established the Projects and Contracting Office as a temporary organization within DOD. The Projects and Contracting Office provides acquisition and project management support for the reconstruction effort in Iraq.

DOD *Supplemental and Cost of War Execution Report*.²⁶ This “Other Support Costs” category includes obligations such as the reimbursement of coalition countries for logistical and military support, lift and sustainment for coalition partners during military operations, training and equipping the Afghan National Army and the Armed Forces of Iraq, and obligations tied to the Commander’s Emergency Response Program.²⁷

At the time of a draft of this report, DOD had not yet reported obligations tied to the training and equipping of Afghan and Iraqi security forces for fiscal year 2005. While DOD has begun reporting obligations incurred for these activities in fiscal year 2006, the DOD Comptroller’s office had not amended its previously reported obligations for fiscal year 2005 to include these obligations. According to DOD officials, because the funds for these purposes became available later in the fiscal year, DOD did not have a reporting format in the cost-of-war reports for these obligations and planned to amend its September 2005 cost-of-war report at some point to reflect them. For example, DOD had not reported more than \$1.1 billion in obligations tied to these categories, the majority of which is for the Armed Forces of Iraq. Excluding these obligations from the cost-of-war reports understates DOD’s total GWOT obligations for fiscal year 2005, and limits Congress’s visibility over DOD’s total fiscal year 2006 GWOT requirements. However, in October 2006, DOD did amend the September 2005 cost-of-war report to reflect the \$1.1 billion in fiscal year 2005 obligations.

In reviewing the Army’s fiscal year 2006 obligations to finance the training and equipping of the Afghan National Army, we found that the obligations reported by the Army in DOD’s GWOT cost reports were being understated between the October 2005 and March 2006 cost reports, when compared to the Office of Management and Budget’s (OMB) SF 133 Report on Budget Execution and Budgetary Resources²⁸ for the same time period. In total, we found that the Army had understated obligations by almost

²⁶ These “Other” costs are reported in up to 20 categories and are included as subsidiary reports to the Army’s and the Defense Security Cooperation Agency’s DOD *Supplemental and Cost of War Execution Report*.

²⁷ The Commander’s Emergency Response Program provides funds to military commanders for small-scale reconstruction and humanitarian relief projects in Iraq and Afghanistan.

²⁸ The Office of Management and Budget’s SF 133 Report on Budget Execution and Budgetary Resources fulfills the requirement in 31 U.S.C. § 1511 - 1514 that the President review federal expenditures at least four times a year. The report provides a basis to determine obligation patterns and provide historical reference that can be used to help prepare the President’s budget, program operating plans, and spend-out rate estimates.

\$371 million. In discussions with the DOD Comptroller, we pointed out that the obligations data being reported to OMB were different from the data being reported to DOD for its GWOT cost-of-war report. According to DOD Comptroller officials, prior to fiscal year 2005 appropriations for the training and equipping of the Afghan National Army flowed to the Defense Security Cooperation Agency for obligation through the Foreign Military Sales program. After the Afghanistan Security Forces Fund was established in fiscal year 2005, the Defense Security Cooperation Agency began transferring the funds directly to the Foreign Military Sales program for use by the Army. Additionally, the DOD Comptroller noted that upon transfer from the Afghanistan Security Forces Fund, DOD and OMB consider these funds fully obligated, since the funds will not be spent elsewhere. However, the Defense Security Cooperation Agency and the Army were not reporting the transferred amounts as obligations, but were instead reporting the amount of funds disbursed through the Foreign Military Sales program. The Army's lower obligation data were appearing in DOD's *Supplemental and Cost of War Execution Report* from October 2005 through March 2006. Once this matter came to light, DOD Comptroller officials took action to reflect the accurate obligations against the Afghanistan Security Forces Fund. The April 2006 report reflects the corrected cumulative obligations through April 2006.

Conclusions

While the military services expect increases in the amount of reported obligations for procurement in the last month of fiscal year 2006, much of this multiyear funding will remain available in fiscal year 2007. Since it is likely that much of the procurement funding from fiscal year 2006 will remain available in fiscal year 2007, knowledge of those amounts and how DOD plans to spend them would ensure congressional decision makers have additional information to use in determining DOD's future funding needs. While DOD has taken steps to improve its cost reporting procedures and the reliability of its reported GWOT obligation data, lack of transparency and inaccuracies in reported GWOT obligations continue to exist. The large obligations in miscellaneous categories do not provide decision makers with transparency over how those funds have been spent, while underreported obligations understate DOD's total GWOT obligations. Until DOD and the military services revise their cost reporting procedures to address these problems, it will continue to be difficult for the public, Congress, and DOD to reliably know how much the war is costing, examine details on how appropriated funds are being spent, or have historical information useful in determining future funding needs.

Matter for Congressional Consideration

When conducting its deliberations over DOD's funding needs, Congress should consider requiring DOD to provide fiscal year-end information on how much procurement funding remains available for obligation at the conclusion of fiscal year 2006. Congress should also require DOD to provide a plan detailing how the department intends to obligate this funding and any other procurement funding received or requested for GWOT for fiscal year 2007 and beyond.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD agreed with one recommendation made in the draft report and disagreed with the second. DOD also provided technical comments and we have incorporated them in the report as appropriate.

DOD agreed with our recommendation that Volume 12, Chapter 23 of the DOD *Financial Management Regulation* be revised to provide additional subcategories for "other supplies and equipment," "other services and miscellaneous contracts," and "other military personnel" to provide further breakdown of reported obligations in miscellaneous categories. DOD further stated that it has updated the DOD *Financial Management Regulation* to expand the cost categories of the data reported in its monthly *Supplemental and Cost of War Execution Reports*. This guidance, issued in October 2006, adds elements that expand these "other" cost categories into more descriptive subcategories that provide additional details on DOD's reported obligations for pay and allowances, permanent changes of station, temporary storage, supplies and equipment and contract services. We believe this meets the intent of our recommendation and removed the recommendation from the final report.

DOD did not agree with the basis of our recommendation that it amend the September 2005 version of DOD's *Supplemental and Cost of War Execution Report* to include about \$1.1 billion in unreported fiscal year 2005 obligations tied to the training and equipping of Afghan and Iraqi security forces. In its comments, DOD stated that this information was provided to Congress in an October 2005 report pursuant to Section 9010 of the Department of Defense Appropriations Act, 2005²⁹ and therefore did not agree with our observation that the fiscal year 2005 costs of the war were "understated" by \$1.1 billion. However, DOD stated it did amend the September 2005 cost-of-war report to include the \$1.1 billion in fiscal year

²⁹ Pub. L. No. 108-287 (Aug. 5, 2004).

2005 obligations, as we recommended, and noted this in their comments. We recognize that DOD did report some of these obligations to Congress in this October 2005 report entitled *Report on the Military Operations of the Armed Forces and the Reconstruction Activities of the Department of Defense in Iraq and Afghanistan*. However, in reviewing the obligation figures included in this report, we note these figures do not match those reported in DOD's amended September 2005 cost-of-war report and the Office of Management and Budget's (OMB) SF 133 Report on Budget Execution and Budgetary Resources for fiscal year 2005. According to a DOD official, the figures in DOD's October 2005 report were preliminary and did not reflect all technical adjustments. Furthermore, this official stated that reports pursuant to Section 9010 no longer include obligations against the Afghan and Iraqi security forces funds because these obligation figures are being reported in DOD's monthly *Supplemental and Cost of War Execution Reports*. As we discuss in this report, DOD's monthly *Supplemental and Cost of War Execution Report* is used by senior DOD leadership, along with other information, in evaluating costs of the war and formulating future budget requests to fund GWOT. Since this document does provide historical data with which to evaluate the costs of the war and advise Congress, we believe it is important that DOD include all GWOT related obligations in these reports. Since DOD has already issued and provided us with an amended September 2005 cost-of-war report including the about \$1.1 billion in fiscal year 2005 obligations, we believe this fulfills the intent of our recommendation and removed the recommendation from the final report.

With respect to our suggestion that Congress consider requiring DOD to provide fiscal year-end information on how much procurement funding remains available for obligation at the conclusion of fiscal year 2006 and require DOD to provide a plan detailing how the department intends to obligate this funding and any other procurement funding received or requested for GWOT in fiscal year 2007 and beyond, DOD commented that it has plans for reconstituting forces deployed in the war on terror and that it is not reasonable to infer that these funds are available for other purposes. DOD further stated that it had justified the procurement requirements to Congress and already provides reports that clearly state the status of obligations for all GWOT funds. We do not believe that our report implies that any previously appropriated procurement funding is available for other purposes. On the contrary, we stated that significant multiyear funds will remain available at the end of fiscal year 2006 for procurement purposes. Given that DOD received more procurement funding with the enactment of the fiscal year 2007 defense appropriation bill and is expected to request more in a fiscal year 2007 supplemental

appropriation, we believe it is important that Congress have a complete and up-to-date picture of all funding DOD has available for procurement purposes when considering future appropriations requests from DOD.

We are sending copies of this report to other interested congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. Copies of this report will also be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions regarding this report, please contact me at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive, flowing style.

Sharon L. Pickup
Director, Defense Capabilities and Management

List of Congressional Committees

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
Ranking Minority Member
Committee on the Budget
United States Senate

The Honorable Ted Stevens
Chairman
The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Duncan L. Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Jim Nussle
Chairman
The Honorable John M. Spratt, Jr.
Ranking Minority Member
Committee on the Budget
House of Representatives

The Honorable C.W. Bill Young
Chairman
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

To compare the military services' reported obligations against available funding appropriated for Global War on Terrorism (GWOT) in fiscal year 2006, we analyzed applicable annual and supplemental appropriations provided to the military services and Department of Defense (DOD) reports on GWOT obligations. To identify funding for the GWOT, we reviewed applicable annual and supplemental DOD appropriations in fiscal year 2006. We also reviewed DOD reports on the transfer or reprogramming of funds among various appropriation accounts or budget activities to support GWOT. To examine DOD's reported obligations, we obtained and analyzed copies of the October 2005 through June 2006 monthly DOD *Supplemental and Cost of War Execution Report* from the Office of the Under Secretary of Defense (Comptroller) to identify reported obligations by operation and by appropriation account for the military services. We focused our review on the reported obligation of GWOT funds appropriated for military personnel, operation and maintenance, and procurement for the Army, Air Force, Navy, and Marine Corps, for both active and reserve forces, because they represented more than 80 percent of the funds obligated in fiscal year 2006. We excluded classified programs from our review because obligations for those programs are not reported in DOD's monthly *Supplemental and Cost of War Execution Report*. In addition, for fiscal year 2006, we reviewed the latest available obligation data and held discussions with the military services on the results of their midyear budget reviews. We compared the military services' reported obligations through June 2006, the latest available reported obligation data at the time of our review, to the supplemental appropriations provided to calculate the proportion of funds obligated through June. We then compared those proportions to the proportion of the fiscal year that has elapsed through June—which represents 75 percent of the fiscal year—to assess whether based on obligations through June funding is likely to be greater than, less than, or equal to obligations. We also interviewed key officials from the Office of the Under Secretary of Defense (Comptroller) and the Army, Navy, Marine Corps, and Air Force to determine if their projected GWOT obligations are within fiscal year 2006 funding levels. We recognize that funds are not obligated equally each month throughout the fiscal year and that the supplemental appropriation funding was not received by the military services until June.

GWOT obligations provided in this report are DOD's claimed obligations as reported in DOD's monthly *Supplemental and Cost of War Execution Report*. As previously reported, we found the data in DOD's monthly *Supplemental and Cost of War Execution Reports* to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported

obligations for GWOT are complete, reliable, and accurate, and they should therefore be considered approximations. In addition, as recently as November 2005, DOD acknowledged that systemic weaknesses with its financial management systems and business operations continue to impair its financial information. Despite the uncertainty about obligation data, we are reporting the information because it is the only way to approach an estimate of the costs of the war. Also, despite the uncertainty surrounding the true dollar figure for obligations, these data are used to advise Congress on the cost of the war.

To examine the steps DOD has taken to improve the reliability of its reported GWOT obligations, we reviewed DOD *Financial Management Regulation* Volume 12, Chapter 23, which establishes DOD's policies and procedures for developing contingency budget estimates and cost reporting. We analyzed DOD's emergency supplemental budget requests for fiscal year 2006, and military service contingency operation financial management policies and procedures. We analyzed the fiscal year 2006 GWOT cost reports and held discussions with the DOD Comptroller and military service financial management officials regarding the processes used to ensure that GWOT obligation data provided were accurate and reliable. We conducted limited testing of the Army's reported military personnel obligations, specifically imminent danger pay, and discussed our work with officials from the Army Budget Office and DOD Comptroller. We also obtained and reviewed information on DOD's budget estimates, supplemental requests, budget reprogramming and transfer documents, and other supporting documentation. Lastly, we reviewed previous GAO reports and testimonies and reports from other agencies regarding guidance and oversight of contingency operations costs in DOD's accounting systems. As of September 2006, we determined that problems with the completeness and accuracy of DOD's reported obligations continue and we discuss these problems throughout the report.

We interviewed DOD representatives regarding GWOT obligations and funding for fiscal year 2006 and the reliability of cost reporting in the following locations:

- Office of the Under Secretary of Defense (Comptroller), Washington, D.C.
- U.S. Pacific Command, Camp H.M. Smith, Hawaii
- Defense Finance and Accounting Service Center, Denver, Colorado

- Headquarters, Department of the Army, Washington, D.C.
- U.S. Army Installation Management Agency, Washington, D.C.
- U.S. Army Installation Management Agency, Southeast Region, Fort McPherson, Georgia
- U.S. Army Installation Management Agency, Pacific Region, Fort Shafter, Hawaii
- Headquarters, U.S. Army Forces Command and Headquarters, Third Army (Army Central Command), Fort McPherson, Georgia
- Headquarters, U.S. Army Pacific, Fort Shafter, Hawaii
- Army Materiel Command, Fort Belvoir, Virginia
- Headquarters, 25th Infantry Division, Schofield Barracks, Hawaii
- U.S. Army Garrison, Schofield Barracks, Hawaii
- Headquarters, U.S. Marine Corps, Washington, D.C.
- U.S. Marine Corps Forces Pacific, Camp H.M. Smith, Hawaii
- Marine Corps Central Command, MacDill AFB, Florida
- Department of the Navy, Headquarters, Washington, D.C.
- Commander, U.S. Pacific Fleet, Pearl Harbor, Hawaii.
- Military Sealift Command, Washington, D.C.
- Department of the Air Force, Headquarters, Washington, D.C.
- U.S. Air Forces Pacific, Hickam Air Force Base, Hawaii
- Air Force Air Combat Command, Langley Air Force Base, Virginia
- Air Force Air Mobility Command, Scott Air Force Base, Illinois
- U.S. Central Command Air Forces, Shaw Air Force Base, South Carolina

We performed our work from January 2006 through September 2006 in accordance with generally accepted government auditing standards.

Appendix II: DOD's Process for Reporting GWOT Obligations

Obligations are the foundation of all Global War on Terrorism (GWOT) cost reporting. The obligations incurred for military contingency operations are referred to as “incremental,” which are costs that are directly attributable to the operation that would not have been incurred if it were not for the operation.¹ The reported incremental obligations incurred for these military or contingency operations include the pay of mobilized reservists as well as the special pays and allowances for deployed personnel, such as imminent danger pay and foreign duty pay for those personnel serving in Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF); the cost of transporting personnel and materiel to the theater of operation and supporting them upon arrival; and the operational cost of equipment such as vehicles and aircraft, among many other obligations.² Obligations that are incurred regardless of whether there is a contingency operation, such as the base pay of active duty military personnel, are not considered incremental.

When obligations are incurred, the military services enter them into their individual accounting systems. An obligation entry includes information on the funding source; the operational mission, such as OIF; and the category of cost, as determined by the individual military service. The Department of Defense's (DOD) financial management regulation direct the military services to capture contingency costs, which include GWOT obligations, within their existing accounting systems and at the lowest possible level of organization.

To improve the consistency of contingency-cost reporting between the multiple military services and agencies, on October 1, 1998, DOD implemented a standard contingency cost-breakdown structure. This cost-breakdown structure was to facilitate future efforts to understand and interpret differences between estimated and actual obligations. Examples of cost categories include imminent danger or hostile fire pay, facilities/base support, airlift, vehicle procurement, and major military construction. Of the common cost categories and multiple subcategories

¹ Sections 230406 and 230902 of DOD's *Financial Management Regulation* 7000.14-R, Volume 12, Chapter 23 “Contingency Operations” (September 2005) provide additional information on incremental costs.

² Service members who are assigned, deployed, or traveling on temporary duty to certain foreign areas are eligible for certain special pays and benefits, such as imminent danger pay. 37 USC § 310 (a) (2) (D) (2006).

listed in DOD financial management regulation, 55 cost categories are used to report DOD's monthly GWOT obligations.

For GWOT cost reporting, individual obligation data that are coded as being in support of GWOT are recorded and sent through the military services' chain of command where they are aggregated at successively higher command levels. Each military service and defense agency compiles its reported obligations in the standard contingency cost breakdown structure, and sends them to the Defense Finance and Accounting Service (DFAS). DFAS aggregates the individual submissions into the monthly *Supplemental and Cost of War Execution Report*. DFAS publishes 10 versions of this report on a monthly basis, each of which specifies GWOT obligations by operation, appropriation, and appropriate DOD component.³ The monthly GWOT cost reports are then submitted to the DOD Comptroller for review and further dissemination.⁴ The versions of the report published for fiscal year 2006 are listed in table 3.

³ For fiscal year 2006, additional resources at DFAS were reassigned to assist in producing and reviewing DOD's monthly *Supplemental and Cost of War Execution Report*.

⁴ The DOD Comptroller has two full-time employees dedicated to reviewing the department's GWOT obligations reported in DOD's monthly *Supplemental and Cost of War Execution Report*.

Table 3: DOD Supplemental and Cost of War Execution Report for Fiscal Year 2006

Fiscal years
2006 Summary
2006 Appropriations
2005 Title IX Appropriation (Second Year Execution)
2005 Iraq Security Forces Fund (Second Year Execution)
2005 Coalition Support Fund (Second Year Execution)
2005 Afghanistan Security Forces Fund (Second Year Execution)
2005 Appropriations (Second Year Execution)
2004 Title IX Appropriation (Third Year Execution)
2004 Appropriations (Third Year Execution)
2003 Appropriations (Fourth Year Execution)

Source: Defense Finance and Accounting Service.

Appendix III: Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 20 2006

The Honorable David M. Walker
Comptroller General
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Walker:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-07-76, titled "Global War On Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels And Significant Multi-Year Procurement Funds Will Likely Remain Available For Use In Fiscal Year 2007."

The Department of Defense does not concur with one of the recommendations for executive action and has taken appropriate action to address the second. Enclosed are specific comments on each issue. The Department did not "understate" the fiscal year (FY) 2005 cost of the war by \$1.1 billion because these costs have been reported to Congress. The Department included this funding in its October 2005 report to Congress to comply with Section 9010 of Public Law 10-287, the Department of Defense Appropriations Act, 2005. We also have provided an amended September FY 2005 Cost of War report including the \$1.1 billion. The second item, providing additional detail for other costs, has also been addressed. We have updated the Department of Defense Financial Management Regulation to expand the cost categories of the data reported in the Cost of War reports.

We also do not agree with the recommended matter for congressional action regarding procurement. The Department of Defense has plans for reconstituting forces deployed in the war on terror over the next several years. The majority of the FY 2006 Supplemental funds were appropriated in June 2006. These funds are designed to spend out over a maximum of 3 years in accordance with a reasonable plan for reconstituting forces. It is not reasonable to infer that these funds are available for other purposes.

Thank you for the opportunity to provide the Department's response to GAO's recommendations.

Sincerely,

Tina W. Jonas

Enclosure:
As stated

OCT 30 2006

Department of Defense Comments
GAO-07-76

SUBJECT: GAO Draft Report, titled "Global War On Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels And Significant Multi-Year Procurement Funds Will Likely Remain Available For Use In Fiscal Year 2007."

DISCUSSION:

- The GAO report outlined two recommendations for executive action and one item for Congressional concern.
- The Department of Defense nonconcurs with one item for executive action and concurs with comment on the other.
- The findings help highlight problems for corrective action, such as insufficient detail for "Other" categories in the Cost Breakdown Structure (CBS).
- The Department nonconcurs on the item for Congressional concern.

RECOMMENDATION 1: The Secretary of Defense revise Volume 12, Chapter 23 of the DoD Financial Management Regulation to provide additional subcategories for "other supplies and Equipment," "other services and miscellaneous contracts," and "other military personnel" to provide a further breakdown of reported obligation in miscellaneous categories.

DoD COMMENT TO RECOMMENDATION 1: Concur with comment. The Department has updated the DoD Financial Management Regulation to expand the accuracy of the data reported in the cost reports. The Cost of War reports now provide additional details in:

- Pay and allowances
- Permanent change of station cost
- Costs for temporary storage
- Supplies and equipment
- Contract services

RECOMMENDATION 2: The Secretary of Defense should direct the Under Secretary of Defense (Comptroller) to amend the September 2005 version of DoD's Supplemental and Cost of War Execution reports to include the unreported Iraq and Afghan security forces fund obligations for fiscal year 2005.

DoD COMMENT TO RECOMMENDATION 2: Non concur. The Department did not "understate" the fiscal year (FY) 2005 cost of the war by \$1.1 billion because these costs have been reported to Congress. The Department included this funding in its

Department of Defense Comments
GAO-07-76

October 2005 report to Congress to comply with Section 9010 of Public Law 10-287, the Department of Defense Appropriations Act, 2005. We also have provided an amended September FY 2005 Cost of War report including the \$1.1 billion.

Matter for Congressional Concern: When conducting its deliberations over DoD's funding needs for fiscal year 2007 and beyond, Congress should consider requiring DoD to provide fiscal yearend information on how much procurement funding remains available for obligation from fiscal year 2006. Congress should also require DoD to provide a plan detailing how the department intends to obligate these and any other procurement funding received or requested for GWOT.

DoD COMMENT on Matter for Congressional Concern: Non concur. The Department of Defense justified the procurement requirements to Congress and is currently executing the approved program. The Department of Defense already provides reports that clearly state the status of obligations of all GWOT funds.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Sharon Pickup (202) 512-9619 or pickups@gao.gov

Acknowledgments

In addition to the contact named above, Ann Borseth, Assistant Director; Richard K. Geiger; Natalie Schneider; Kim Mayo; Renee S. Brown; and Lonnie McAllister made key contributions to this report.

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